

## Message Text

SECRET

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ACTION SS-30

INFO OCT-01 ISO-00 /031 W

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R 132030Z JUN 74

FM AMEMBASSY KINGSTON

TO SECSTATE WASHDC 4961

S E C R E T SECTION 1 OF 2 KINGSTON 2059/1

EXDIS; PASS OPIC

E.O. 11652:GDS

TAGS: EMIN EFIN

SUBJ: BAUXITE SITREP 77

1. INDUSTRY NEGOTIATOR CUTLER CALLED ON ME YESTERDAY AND REPORTED THAT HE HAD COME TO JAMAICA TO PRESENT A MODIFIED REVENUE PROPOSAL IN ACCORDANCE WITH THE SERIES OF DISCUSSIONS BETWEEN INDUSTRY AND GOJ REPS HELD IN WASHINGTON AT THE INITIATION OF JUSTICE GOLDBERG. ACCORDING TO CUTLER, THE AGREEMENT WAS THAT THE GOJ WOULD LOOK AT THE REVENUE PROPOSALS AFTER AGREEMENT IN PRINCIPLE ON SOME OF THE NON-REVENUE ISSUES. HOWEVER HE RATHER GLOSSED OVER WHATEVER DISCUSSIONS MAY HAVE TAKEN PLACE ON NON-REVENUE ISSUES. HE SAID HE HAD PRESENTED HIS PROPOSAL TO ROUSSEAU THE PREVIOUS EVENING BUT DID NOT AS YET HAVE ANY REACTION.

2. NEW PROPOSAL IS ESSENTIALLY AN INVERSION OF THE INDUSTRY'S LAST FORMAL PROPOSAL WHICH CALLED FOR FOUR PERCENT OF INGOT PRICE GUARANTEED AND AN ESCALATION FORMULA BASED ON REALIZED PRICES WHICH AT HIGH LEVELS WOULD APPROACH THE GOVT DEMAN IN TERMS OF REVENUE YIELD. THE NEW PROPOSAL BEGINS WITH THE GOVTS 7.5 PER CENT WHICH IS NOW A MATTER OF LAW, BUT CALLS FOR A DOWNWARD ADJUSTMENT AT THE END OF THE YEAR IN THE EVENT REALIZED PRICES HAVE NOT ACHIEVED LEVESTHAT COULD, IN THE INDUSTRY VIEW, JUSTIFY THAT PERCENTAGE. WE ARE POUCHING A COPY OF THE INDUSTRY PROPOSAL.

3. CUTLER ALSO REPORTED THAT KAISER (OF WHICH HE IS A DIRECTOR) WAS ABOUT TO ISSUE A STATEMENT OVER THE SIGNATURE OF KAISER ALUMINUM'S PRESIDENT CORNELL MAIER THAT WOULD BE QUITE MILD AND ACC-

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OMODATING IN ITS TONE. HE INDICATED THAT THIS STATEMENT WAS IN-

TENDED PRIMARILY FOR INVESTORS, ANALYSTS, AND THE MARKET, BUT NOTED THAT IT WOULD OF COURSE, HAVE A PUBLIC IMPACT IN JAMAICA AND ELSEWHERE. WITH THIS IN MIND HE HAD BROUGHT A DRAFT WITH HIM AND PASSED IT TO PM MANLEY THROUGH ROUSSEAU. HE SAID THAT ROUSSEAU REPORTED THAT THE PM WAS QUITE PLEASED WITH IT. HE SAID HE WOULD PROVIDE US WITH A COPY IN DUE COURSE, BUT THUS FAR IT WAS MERELY A DRAFT.

4. CUTLER ACKNOWLEDGED THAT HE AND RTDE ARE NO LONGER REPRESENTING ALCAN, WHICH HAS DECIDED ON A HARD LINE, AND AT ANOTHER POINT LET SLIP THAT HE ONLY HAS FOUR CLIENTS. WE GOT THE IMPRESSION THAT HE IS PRIMARILY REPRESENTING KAISER AND REYNOLDS AT THIS POINT, WITH REVERE, ALCAN, AND ALCOA TAKING AN INDEPENDENT COURSE. KAISER AND REYNOLDS ARE THE TWO FIRMS WITH THE BIGGEST STAKE IN JAMAICA.

5. WITH REGARD TO ICSID, CUTLER SAID THE FIRMS WERE PROCEEDING TO FILE THEIR BRIEFS AND INDEED GELT THAT THEY HAD NO ALTERNATIVE BUT TO DO SO. HE SAID THEIR OBLIGATION TO DO SO HAD BEEN EXPLAINED TO THE JAMAICANS, WHO SAID THEY UNDERSTOOD. CUTLER MUSED THAT THE JAMAICANS HAD TWO OPTIONS ON ICSID. ONE WAS TO SIMPLY NOT SHOW UP. THE OTHER WAS TO SHOW UP AND ARGUE JURISDICTION AND OTHERWISE DEFEND THEIR ACTION TO DATE. HE THOUGHT THERE WAS A GOOD CHANCE THEY SIMPLY WOULD NOT SHOW UP.

6. ON OPIC, CUTLER SAID THE COMPANIES WERE OFFICIALLY INFORMING THE AGENCY OF THE ACTIONS OF THE GOJ TO DATE, BUT INDICATED THEY WERE NOT PURSUING A OPIC CLAIM AT HIS TIME.

7. CUTLER SAID NO DATES HAD BEEN SET FOR COMMENCING NEGOTIATIONS ON NON-REVENUE ISSUES, AND THAT THE GOVT HAS MADE CLEAR THAT IT INTENDED TO CONDUCT THE REMAINING NEGOTIATIONS ON A COMPANY-BY-COMPANY BASIS RATHER THAN COLLECTIVELY. HE DID NOT THINK ANY NEW TALKS WOULD GET STARTED BEFORE AUGUST AT THE EARLIEST.

8. CUTLER'S REPORT CONFIRMED IN SUBSTANCE (MAKING ALLOWANCE FOR DIFFERING VIEWPOINTS) INFORMATION ACQUIRED IN A CONVERSATION BETWEEN DCM AND MEYER MATALON EARLIER IN THE DAY. MATALON SAID HE HAD GONE TO WASHINGTON WITH FIRM POSITION THAT THE GOJ WOULD CONSIDER MODIFICATIONS IN THE REVENUE SOLUTION ONLY IF NEW PROPOSED

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OSALS IN THIS AREA WERE PLACED IN THE CONTEXT OF A TOTAL PACKAGE SOLUTION OF BOTH REVENUE AND NON-REVENUE ISSUES. HE EXPRESSED OUTRAGE THAT THE INDUSTRY, FAR FROM HEEDING HIS MESSAGE, HAD ONCE AGAIN COME BACK WITH A REVENUE PROPOSAL ONLY, AND MOREOVER ONE THAT WAS ONLY marginally AND COSMETICALLY BETTER THAN ITS PREVIOUS ONE. HE SAID HE THOUGHT THIS LATEST PROPOSAL HAD NO CHANCE OF SUCCESS.

9. MATALON CONFIRMED THAT THE GOVT WAS IN NO HURRY TO RESUME NEGOTIATIONS ON NON-REVENUE ISSUES BUT WAS LESS SPECIFIC THAN CUTLER IN NAMING A GENERAL TIME FRAME. HE ALSO CONFIRMED THAT FUTURE NEGOTIATIONS WOULD BE COMPANY-BY-COMPANY.

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FM AMEMBASSY KINGSTON

TO SECSTATE WASHDC 4962

S E C R E T SECTION 2 OF 2 KINGSTON 2059/2

EXDIS

10. MATALON HAD SEVERAL OTHER ENTHRALLING STORIES OF DOUBTFUL SIGNIFICANCE. ONE WAS THAT HE HAD EXPLAINED TO PM THAT SEVERAL OF THE COMPANIES, AND ESPECIALLY KAISER AND REYNOLDS, HAD A SEVERE CASH PROBLEM AND WERE ENCOUNTERING DIFFICULTIES RAISING ADDITIONAL EQUITY INVESTMENT NEEDED FOR EXPANSION. MATALON SAID HE PROPOSED THAT THE GOJ BUY STOCK IN KAISER ALUMINUM (NEW SHARES AT A PRICE TO BE NEGOTIATED) UP T A LEVEL GIVING THE GOJ THE SAME EQUITY AS THE PARENT COMPANY, KAISER INDUSTRIES, HAS IN KAISER ALUMINUM. THE COST WOULD BE US\$70-80 MILLION. MATALON SAID THAT THE PM THOUGHT IT WAS AN ECCENTRIC IDEA AND ONE HE WOULD HAVE A HARD TIME JUSTIFYING, BUT GAVE HIM AUTHORITY TO TRY IT OUT. KAISER TURNED IT DOWN FLAT, MATALON SAID. (CUTLER ALLUDED TO THIS INCIDENT IN PASSING).

11. ANOTHER STORY WAS THAT THE GOJ HAD TOLD REVERE THAT, SHOULD THE JAPANESE BOW OUT OF THEIR DEAL FOR A JOINT VENTURE TO EXPAND REVERE ALUMINA PLANT BY 400,000 TONS BECAUSE OF RECENT EVENTS THE GOJ WOULD PUT UP THE MONEY. IN ADDITION THE GOJ WOULD PUT UP THE FUNDS FOR 400,000 TONS OF NEW CAPACITY ON TOP OF THE JAPANESE INPUT IF THEY DO NOT BOW OUT. IN EITHER CASE THE ALUMINA WOULD BECOME THE PROPERTY OF THE GOJ. (IF TRUE THIS STORY EXPLAINS WHERE THE GOJ HOPES TO GET THE ALUMINA FOR ITS CONTRIBUTION TO THE NEW TRI-NATION ALUMINUM SMELTER IN TRINIDAD).

12. MATALON ALSO SAID THAT, ON THE FATEFUL LAST NIGHT OF THE REVENUE NEGOTIATIONS, HE HAD OFFERED HARPER OF ALCOA A FORMULA BASED ON 6 PERCENT OF INGOT PRICE, BUT TO NO EFFECT. HE WAS SHOCKED TO LEARN IN THE COURSE OF THE RECENT CONVERSATIONS IN SECRET

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WASHINGTON, HE SAID, THAT HARPER HAD NEVER BOTHERED TO INFORM OTHER INDUSTRY REPS OF THIS OFFER. (ACCORDING TO CULTER, HARPER HOTLY DENIES THAT MATALON EVER MADE SUCH AN OFFER WHICH WOULD NOT HAVE BEEN ACCEPTABLE ANYHOW.)

13. COMMENT: IT SEEMS LIKELY THAT, HAVING RUSHED THROUGH THE REVENUE NEGOTIATIONS IN ORDER TO PREVENT THE CONSOLIDATION OF OPPOSITION BOTH WITHIN JAMAICA AND OUTSIDE IT, THE GOJ IS NOW TAKING ITS TIME IN ORDER TO CONSOLIDATE ITS OWN POSITION AND LET THE FIRST REACTIONS BLOW OVER BEFORE GOING ON TO MORE SENSITIVE ISSUES. IT IS ALSO CLEAR THAT THE INDUSTRY IS IN CONSIDERABLE DISARRAY AT THIS POINT, AND THAT THOSE WITH THE BIGGEST STAKE IN JAMAICA ARE INCHING TOWARDS A SEPARATE ACCOMMODATION SUITING THEIR INTERESTS, IF NOT THOSE WHOSE CORPORATE SITUATION IS DIFFERENT. THE GOJ SEEMS TO BE ENCOURAGING THESE DIVISIONS BY DANGLING VARIOUS OFFERS AND POSSIBILITIES IN FRONT OF THOSE COMPANIES WITH THE MOST TO LOSE.  
GERARD

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